

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL**

**AUDIT OF RENT COLLECTIONS
IN THE
DISTRICT OF COLUMBIA
GOVERNMENT**



**CHARLES C. MADDOX, ESQ.
INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



October 29, 2002

Timothy F. Dimond
Director
Office of Property Management
441 4th St. N.W., Suite 721
Washington, D.C. 20001

Barbara Jumper
Deputy Chief Financial Officer
Office of Finance and Resource Management
441 4th St. N.W., Suite 840
Washington, D.C. 20001

Dear Mr. Dimond and Ms. Jumper:

Enclosed is our final report summarizing the results of the Office of the Inspector General's (OIG) Audit of Rent Collections in the District of Columbia Government (OIG-01-1-26MA).

Our audit report contained 15 recommendations. We addressed 12 recommendations to the Director of the Office of Property Management (OPM), 2 recommendations to the Deputy Chief Financial Officer of the Office of Finance and Resource Management (OFRM), and 1 recommendation to both OPM and OFRM for necessary action to correct the described deficiencies.

We received a response from OPM on September 24, 2002, to the draft of this report. OPM commented on each of the 5 findings contained in the report, provided detailed explanations of staffing issues and other constraints facing the agency. Actions taken or planned by OPM were fully responsive to Recommendations 5, 11, 14, and 15. Although planned actions taken in response to Recommendations 1, 2, 3, and 6 were responsive, we request that your office provide us with a target dates for completed corrective actions on each of those recommendations. We also request that OPM reconsider or clarify its position on Recommendations 8, 9, and 10. OPM did not respond to Recommendations 4 and 7, and therefore, we consider these recommendations unresolved. We request that OPM respond to those recommendations in reply to this final report. The complete text of the OPM's response is included in Exhibit B.

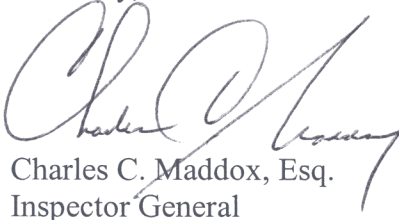
We also received a response from OFRM on October 2, 2002, to the draft of this report. We request that OFRM reconsider its response to Recommendations 10 and 14. Further, OFRM did not respond to Recommendations 12 and 13. Since no response has been received, we consider these recommendations unresolved. We request that OFRM respond to these

recommendations in reply to the final report. The full text of OFRM's response is included in Exhibit C.

All responses to this final report should be received by December 30, 2002. Generally, audit recommendations should be resolved within 6 months of the date of the final report. Accordingly, we will continue to work with OPM and OFRM to reach final agreement on any unresolved recommendations.

We appreciate the cooperation and courtesies extended to our staff during the audit. If you have questions, please contact me or William J. DiVello, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,



Charles C. Maddox, Esq.
Inspector General

CCM/ws

Enclosure

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**AUDIT OF RENT COLLECTIONS
IN THE DISTRICT OF COLUMBIA**

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EXECUTIVE DIGEST

OVERVIEW

This report summarizes the results of the Office of the Inspector General's (OIG) audit of the Office of Property Management (OPM) outlease¹ rent collection activities and the Office of Finance and Resource Management (OFRM) outlease rent collection processes. Our audit objectives were to determine: (1) whether tenant outleases for the District are in compliance with applicable District laws, regulations, and policies and procedures; and (2) if agency monitoring processes over outlease tenant rent collection activities are effective and efficient.

This report addresses our review of OPM's portfolio management, but it focuses specifically on outlease administration that encompasses monitoring and maintaining the District's portfolio of properties that are rented to private sector clients.

CONCLUSIONS

We found that management controls over OPM's outlease administration were incomplete, lacking the basic processes needed to ensure the overall integrity of program and fiscal activities. Namely, lines of accountability were not clearly established, written policies and procedures for lease administration were outdated, and documentation was insufficient or nonexistent in many instances.

Based on our analysis of the overall OPM outlease administration's rental collections and monitoring, we identified an absence of outlease monitoring activities and a lack of specific written communication between OPM and OFRM that contributed to factual inaccuracies and untimely submittals of monthly rent collection reports. Further, we noted that the treatment of tenant security deposits was not in compliance with the Chief Financial Officer's (CFOs) policies and procedures manual that requires security deposits be treated as fiduciary in nature and not used as operating funds.

As a result of inadequate management controls, program deficiencies evolved concerning the administration of outlease processes. Accordingly, we identified over \$1.1 million in lost rental revenue to the District. Additionally, in each of the outlease files that we reviewed, a level of noncompliance with specific outlease clauses existed. The monetary and non-monetary benefits arising from our audit and available to the District are listed in Exhibit A, Summary of Potential Benefits Resulting from Audit.

¹ The leasing and management of government-owned land and rights of entry to private concerns as well as the monitoring of contract managers (the District is the landlord).

EXECUTIVE DIGEST

SUMMARY OF RECOMMENDATIONS

We directed 12 recommendations to the Director, OPM; 2 recommendations to the Director, OFRM; and 1 recommendation to both agencies. The recommendations, in part, center on:

- OPM identifying those individuals responsible for the maintenance and accuracy of the outlease files;
- OPM establishing and implementing policies for outlease administration;
- OPM developing a formal tracking system that addresses individual recommendations and ensures that the recommendations contained in this audit and prior reviews are implemented;
- OPM improve oversight of tenant outleases by reviewing all tenant leases and initiating adjustments to reflect increases in rent;
- OPM collecting rental revenue by applying past rent increases to outleases;
- OPM improving oversight of tenant outleases by reviewing outlease files to ensure tenant insurance requirements are met;
- OPM establishing policies for restricting access to lease record/documentation;
- OPM and OFRM developing a Memorandum of Understanding setting forth the procedures for coordinating the monthly reconciliation of the rent collection report (OFRM) with the listing of current outleases (OPM); and
- OPM and OFRM developing policy and procedures for the processing and accounting of outlease tenant security deposits.

MANAGEMENT RESPONSES AND OIG COMMENTS

We received a response from OPM on September 24, 2002, to the draft of this report. The complete text of the response is in Exhibit B. OPM commented on each of the 5 findings contained in the report and also provided detailed explanations of staffing issues and other constraints facing the agency. OPM's actions taken or planned were fully responsive to Recommendations 5, 11, 14, and 15. Planned corrective actions on Recommendations 1, 2, 3, and 6 were responsive; however, target dates for completed corrective actions are needed for each of those recommendations. We believe that OPM should reconsider or clarify its position on Recommendations 8, 9, and 10. Further, OPM did not respond to Recommendations 4 and 7; therefore, we consider those recommendations unresolved. OPM needs to respond to those recommendations in reply to this final report.

We received a response from OFRM to the draft of this report on October 2, 2002. The complete text of the response is in Exhibit C. OFRM needs to reconsider its responses to Recommendations 10 and 14. Further, OFRM did not respond to Recommendations 12 and 13. Since no response has been received, we consider these recommendations unresolved. OFRM needs to respond to those recommendations in reply to this final report.

INTRODUCTION

BACKGROUND

OPM was established July 13, 1998, by consolidating two divisions of the Department of Administrative Services (DAS), the Building Management Administration and Real Property Administration, with two divisions of the Department of Public Works (Facilities Operation and Maintenance Administration and the Design, Engineering, and Construction Administration). DAS was abolished on October 1, 1998.

OPM has primary responsibility for real property asset management services within the District of Columbia government and provides oversight and coordination for District-wide real estate functions. Other programs and services include acquisitions, construction management, lease portfolio management and administration, facility management and modernization, repair and alterations, and postal and security services for the tenant agencies/occupants of its facilities. OPM's operating budget was \$34.8 million in fiscal year (FY) 2001 and \$33.8 million in FY 2002.

Lease portfolio management involves matters relating to acquisition, lease management, and planning. Rent services responsibilities, included under portfolio management, consist of directing and maintaining the District's portfolio of properties that are rented to private sector clients.

OPM monitors and maintains two types of leases: inleases and outleases. Inleases involve the leasing and management of property and rights of entry from private concerns where the District is the tenant. Inleasing occurs among the District agencies whereby space is secured in privately owned buildings. Outleases involve the leasing and management of government-owned land and rights of entry to private concerns (the District is the landlord).

Since its inception in 1998, OPM has undergone a high turnover rate in senior management. There were 5 Directors within the first 3 years of OPM's existence. Of the five Directors, two were appointed and three were acting Directors. OPM also underwent a reduction-in-force action that reduced the full-time employees (FTEs) from a high of 391 budgeted FTEs in FY 1998 to 282 budgeted FTEs in FY 2001. At the time of this audit, the total number of actual FTEs was 173.

Outlease rental income represents an added source of income for the District. The average revenue for outleases is approximately \$1 million annually. The amount varies from year-to-year due to the initiation or termination of some outleases and renewal and amendment of others. The revenue is used to maintain tenant properties by providing services for trash collection, maintenance, snow removal, etc.

INTRODUCTION

The Office of Finance and Resource Management (OFRM) was established in 1998 to provide financial support to those agencies that were created during the breakup of DAS. Since its creation, OFRM has expanded its financial role to include 21 client agencies and a total oversight of \$670 million in budget authority.

The primary area of responsibility is the financial services program that provides services and management for client agencies. This program produces the following monthly reports for client agencies: financial review process, personnel actions processed, purchase orders and requisitions processed, outstanding encumbrances, overtime analysis, and grant status. Executive summary reports are also produced on a bimonthly basis. In addition, OFRM is responsible for processing outlease rent collections. Tenants remit rental payments each month to a lockbox operated by the Bank of America, and the revenues are deposited directly into a custodial account. OFRM reconciles the lockbox deposits with the bank statements and produces a monthly rent collection report that is forwarded to OPM.

OFRM also operates the central payment program, which collects ‘intra-District’ funds from District agencies to provide a District-wide central payment system for all fixed costs, including utilities, inlease property rents, maintenance, telephone, security, and custodial services, and capital management that provides financial management services to agencies receiving capital funding.

OBJECTIVES, SCOPE, AND METHODOLOGY

The overall objectives of the audit were to determine (1) whether tenant outleases for the District are in compliance with applicable District laws, regulations, and policies and procedures, and (2) whether agency monitoring processes over outlease tenant rent collection activities are effective and efficient. The audit generally covered the period FY 1998 through FY 2001.

To accomplish our objectives, we interviewed OPM and OFRM management and administrative staff to gain a general understanding and an overview of the policies and procedures for collecting and processing outlease rent collections. We also performed lease analysis on outleases that were active at the time of our fieldwork. In addition, we followed up on recommendations made to OPM in prior reviews of its management of outlease administration to determine if management took corrective actions.

The audit covered the period FY 1998 through FY 2001 and was conducted in accordance with generally accepted government auditing standards and included such tests as we considered necessary under the circumstances.

OPM provided the OIG with a listing of outleases (active and inactive) asserted to be complete and accurate as of November 8, 2001, which we relied on during our audit

INTRODUCTION

fieldwork. We did not review newly initiated outleases that came into effect subsequent to this review, nor did we review any subsequent outlease documentation. Our analysis is based on information found in the outlease files at the time of our review.

We reviewed 38 active outleases out of 96 outleases (40 percent) listed in the OPM draft lease report. We looked at original lease documentation, amendments, and adherence to individual lease clauses regarding insurance certificates, annual rent increases, fair market evaluations, percentage-based leases, and tenant/OPM correspondence. We tested for the timeliness of information and performed calculations to determine dollar amounts of outleases in arrears and compared the results with OFRM's rent collection report to determine accuracy and completeness.

We conducted this audit in accordance with generally accepted government auditing standards and included such tests as we considered necessary under the circumstances.

FINDINGS AND RECOMMENDATIONS

FINDING 1: ACCOUNTABILITY AND MANAGEMENT CONTROLS
--

SYNOPSIS

We found that OPM's management controls over outlease administration were incomplete, lacking the basic processes needed to ensure the overall integrity of program and fiscal activities. Namely, lines of accountability were not clearly established, documentation was nonexistent in many instances, written policies and procedures were outdated, and prior review recommendations were not implemented. While some of the OPM deficit practices can be attributed to organizational uncertainties brought about by the transition from DAS to OPM, an overall breakdown in controls continued to exist. As a result of this general lack of management controls, program deficiencies evolved (that are subsequently identified in this report), exposing OPM's outlease administration to inordinate risks and increasing the potential for adverse litigation.

DISCUSSION

Establishing Accountability

The lack of accountability regarding OPM processes and procedures undermines the overall effectiveness of the outlease rent collection program and prevents the maximization of rental income to the District. Prior to April 2001, the Associate Director managed the outleases. Subsequent to that time, the Director, Deputy Director, and Budget Director became involved. At the time of this audit, OPM still had not designated an individual as the lease administrator for the entire outlease portfolio. As a result, outlease monitoring and administration was not conducted on a continuous basis.

Outlease Documentation

The majority of the outlease files contained insufficient documentation. Absent from the outlease files were current lease information, amendments to the leases, and data or accounting records. At the outset of the audit, we expressed concerns regarding the inherent difficulty in auditing outlease files that had not been updated. We also found that:

- Out of 38 active outlease files, 21 contained some form of missing/insufficient documentation. Examples include photocopies instead of original lease documents, lease synopsis sheets substituting for leases, absence of formal lease agreements where temporary leases had expired or were terminated and the renter has continued

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to operate on a month-to-month basis, missing annual gross income statements and reconciliation statements, and other missing documentation.

- A template of the specific documents to reside in each outlease file does not exist, increasing the risk that discrepancies could be overlooked.
- Documents/correspondence were misfiled. Numerous documents did not contain outlease numbers, thus facilitating misfiling of documentation for those tenants that operated under similar names or had renegotiated new outleases under a different outlease number.
- When temporary employees were hired to prepare the files, these employees filed either duplicate or outdated correspondence and documentation. The lack of original and current information prevents verification of the accuracy of current rent payments and collections and increases the potential for adverse litigation.

Policies and Procedures

OPM does not have an internal operations manual for lease administration. Senior staff stated that there are no written policies and procedures for the processing of outleases, and current procedures are based on what was done in the past. We reviewed standard operating procedures for documenting outleases (dated in 1995) under DAS, OPM's predecessor agency. The DAS standard operating procedures were outdated and dealt specifically with lease initiation and not with day-to-day lease administration. The lack of current and effective policies and procedures has contributed to the current lack of management oversight. Written policies and procedures should include procedures for:

- assignment and collection of fees associated with late rental payments;
- notifying tenants regarding upcoming annual increases, the need for current insurance certificates, and changes in rent due to fair market valuations;
- timely processing of tenant security deposits and tenant rental checks;
- cross-training of the OPM staff in outlease monitoring; and
- reconciling active outleases with OFRM's monthly rent collection report.

FINDINGS AND RECOMMENDATIONS

Tracking Review Recommendations

Much of the benefit of audit work is not in the findings reported or the recommendations made, but in their effective implementation to correct reported deficiencies. It is management's responsibility to address the audit findings of auditors and independent consultants and to implement the recommendations. OPM contracted with a consulting firm to perform an examination of lease administration functions and best practices for public sector asset management, install and set-up a lease administration software system, and populate the system's database with current lease and financial data. As part of this contract, the consultant reviewed District outleases in 1999 and 2000 and recommended that OPM:

- identify those persons to be held accountable for the maintenance and accuracy of lease files;
- establish a policy on what standards constitute "original" or "official" files;
- develop procedures for limiting access to the files;
- implement policy and procedures for the storage of original lease files; and
- develop a system whereby insurance certificates are demanded on a regular basis.

Our review disclosed that OPM had not taken action on the consultant's recommendations. As a result, many of the previously reported conditions continued to exist and exacerbated the systemic conditions currently existing in lease administration and lease monitoring. Management should establish a process to track the status of recommendations made by auditors or independent consultants to ensure that actions are taken to correct the noted deficiencies.

RECOMMENDATION 1

We recommend that the Director, Office of Property Management identify one or more persons, such as a lease administrator, to be held responsible for the maintenance and accuracy of the lease records.

OPM Response

OPM officials stated in their response that they have plans to hire a lease administrator to handle both in-leases and out-leases.

FINDINGS AND RECOMMENDATIONS

OIG Comment

We consider OPM's actions to be responsive to our recommendation. However, we request that OPM provide an estimated date for the hiring of a qualified individual for this position in reply to this final report.

RECOMMENDATION 2

We recommend that the Director, Office of Property Management review each outlease file and obtain missing documentation to ensure that each outlease file is complete, accurate and current.

OPM Response

OPM officials stated in their response that they have begun internal audits of several files and are also currently reconciling tenant rental payments monthly.

OIG Comment

We consider OPM's actions to be responsive to our recommendation and request that OPM provide an estimated completion date for the corrective action in reply to this final report.

RECOMMENDATION 3

We recommend that the Director, Office of Property Management establish formal policies and procedures for the monitoring and administration of outleases.

OPM Response

OPM officials stated in their response that they are redesigning all of OPM's practices, including lease management and administration. OPM stated it will establish policies and procedures after lease management and administration practices are redesigned.

OIG Comment

The actions taken by OPM, as outlined in the response, clearly meet the intent our recommendation. However, we request that OPM provide a target date for implementation of these new policies in reply to this final report.

FINDINGS AND RECOMMENDATIONS

RECOMMENDATION 4

We recommend that the Director, Office of Property Management develop a formal tracking system that addresses recommendations made by auditors and independent consultants to assist in ensuring that the recommendations contained in audit and consultant reports are implemented.

OPM Response

OPM officials did not provide a response to this recommendation.

OIG Comment

OPM did not address this issue in its response; this issue remains unresolved. We request that OPM readdress this issue and provide a response to this recommendation when replying to this final report.

FINDINGS AND RECOMMENDATIONS

FINDING 2: MANAGING THE OUTLEASE PROGRAM

SYNOPSIS

OPM did not effectively manage the outlease program. OPM's management of the program was ineffective because it did not optimize revenue by ensuring that outleases were adjusted annually for rental increases and fair market valuations, as required by contractual agreements. We identified 20 active outleases that had accumulated delinquent rent. In addition, we found 31 of 38 outlease files where property liability, fire and casualty, and/or comprehensive public liability insurance coverage had expired or the outlease files were missing current insurance certificates in violation of District regulations. There were also rent checks that were not deposited in accordance with OPM's internal policy and the District CFO's policy and procedures manual. In addition, we found one percentage-based lease that was not adjusted in accordance with lease terms. As a result, the District has not collected and potentially has lost over \$1.1 million in outlease revenue and interest accrual.

DISCUSSION

Annual Adjustments for Rent Increases

We found that OPM performed minimal administration and monitoring of the outlease files. Annual adjustments for rent increases are normally included in rental agreements to provide for the increased cost of providing services during the term of the lease. We identified 20 active outleases that had accumulated delinquent rent due to non-adjustment of rental increases (Table I on the following page). We computed a total delinquency dollar amount of \$820,597. The dollar amount of delinquent rent is based on computation of annual rental increases as stipulated in the individual leases. We also determined that the District lost an additional \$39,870 in accrued interest. The interest was calculated using the Federal Reserve Annualized Interest Rates Statistical Release. The total dollar amount lost to the District (delinquent rent plus lost interest) was \$860,467. We also found that OPM could not assess late fees because OPM is not monitoring the rent collection report for delinquencies nor is there a system in place to conduct follow-up on delinquencies.

Fair Market Valuation

Fair market valuations are based on appraisals conducted on a periodic basis in accordance with the lease terms. The frequency of the appraisal could be every 3, 5, or 10 years,

FINDINGS AND RECOMMENDATIONS

depending on the lease agreement. Rental rates vary significantly in the local market based on many factors, including variables such as location, environment, quality of property and whether the property has been improved. We identified five outleases that contained a fair market valuation clause. In two instances, we were able to determine the appraisal value based on the documentation in the file. However, we could not determine an appraisal value for three outleases that contained the fair market value clause because of insufficient or missing documentation in the outlease files. One file was missing a copy of the appraisal completed in 1999 and the other two did not contain any documentation indicating that a fair market valuation was ever requested or completed during the outlease terms.

TABLE I – SUMMARY OF DELINQUENT RENT & LOST INTEREST

Lease #	Delinquent Rent (\$)	Lost Interest (\$)	Totals (\$)
1	\$ 16,529.16	\$ 669.15	\$ 17,198.31
2	27,640.00	838.65	28,478.65
3	19,733.88	705.30	20,439.18
4	77,113.84	2,490.77	79,604.61
5	7,000.00	317.44	7,317.44
6	29,262.60	3,031.03	32,293.63
7	6,840.00	298.64	7,138.64
8	71,277.28	1,575.48	72,852.76
9	11,160.00	512.88	11,672.88
10	3,899.02	221.94	4,120.96
11	23,928.53	740.14	24,668.67
12	1,378.42	333.55	1,711.97
13	6,057.04	341.58	6,398.62
14	7,603.68	2,068.11	9,671.79
15	386,349.20	16,844.97	403,194.17
16	43,472.46	8,070.98	51,543.44
17	787.50	7.63	795.13
18	38,558.61	374.01	38,932.62
19	41,343.75	401.03	41,744.78
20	662.62	27.07	689.69
Totals	\$ 820,597.59	\$ 39,870.35	\$ 860,467.94

Percentage-Based Leases

We identified a percentage-based rent clause in one outlease during our review. A percentage-based rent clause is one in which a percentage of annual gross sales that exceeds the minimum annual rent paid by the tenant for each lease year is paid annually and in addition to the regular monthly rent payments. Percentage-based leases are only for certain commercial business establishments. In this case, the percentage of annual gross sales is seven percent (7%). Notwithstanding consultation with the Office of Tax and Revenue, we

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were not able to locate annual gross sales receipts for the period 1997-2001 for this tenant. However, based on a 5-year revenue projection for the period 1997-2001 provided by the tenant to OPM in 1997, we were able to compute additional lost rental revenue to the District in the amount of \$235,937. The lost interest amounted to \$12,166 for a total estimated lost to the District of \$248,102 over the five-year period.

Obtaining Adequate Insurance Coverage

Generally, provisions within the District's outlease agreements require the tenant to carry, at his or her own expense, various types of insurance (i.e., fire and casualty, public liability, property damage) during the term of the lease. As proof of coverage, the tenant should furnish OPM with a copy of the insurance certificate. Upon reviewing the outlease files, we noted that 82 percent of the active outlease files either did not contain the mandated insurance certificates or contained ones that had already expired. Again, this was due to the absence of proper lease administration and management. We found that 31 of the 38 active outleases which were reviewed either did not have or were missing current certificates of insurance as shown in Table II.

TABLE II – STATUS OF INSURANCE CERTIFICATES

Current Insurance Certificates	7	18%
Missing Insurance Certificates	7	18%
Expired Insurance Certificates	24	64%
Totals:	38	100%

As a result, the District could be liable for losses from damage to or the destruction of rental properties.

Undeposited Rental Checks

We found three rental checks that had not been forwarded and/or deposited by OFRM into the rental lockbox. The checks were dated May 9, 2000, May 15, 2000, and June 13, 2000, and represented lease payments for May and June 2000. The total amount of the checks was \$4,758.32.

We reviewed the OFRM rent report for FY 2000 and found that an additional eight checks for the period July 2000 through March 2001 were also not credited to this tenant's account on the rent report nor were they deposited into the lockbox. These 8 checks totaled \$9,516.64.

We then contacted the tenant, requested copies (front & back) of the checks in question. Based on our review, we were able to confirm that the 8 checks totaling \$9,516.64 had been

FINDINGS AND RECOMMENDATIONS

deposited directly into the D.C. Treasury, bypassing the lockbox. As for the three rental checks found at the agency, we asked the tenant to void and reissue them so that they could be properly deposited into the D.C. Treasury, which the tenant agreed to do.

Finally, our review of deposit receipts showed that three of the eight checks were deposited on September 29, 2000, and the remaining five were deposited on April 4, 2001. We asked OFRM and OPM about these late deposits, but no explanation was forthcoming from either agency.

As a result, the rent collection reports for FY 2000 and 2001 were understated by \$4,758.32; (checks received and not deposited) and \$9,516.64; (checks deposited but not included on the report), for a total amount of \$14,274.96. Furthermore, OPM did not follow its own internal policy that requires tenants to send all rental payments directly to the lockbox. An additional \$361.92 in accrued interest computed based on the check dates was also lost to the District. Again, this is a direct result of ineffective outlease monitoring and also a failure of OFRM to properly record rental deposits.

Timely Submission of Rent Collection Report

OFRM receives outlease rental receipts through a lockbox set up by D.C. Treasury (Treasury) and OFRM. On a daily basis, OFRM empties the lockbox of rental receipts, codes the receipts to the appropriate account number, and subsequently makes a deposit into Treasury using cash receipt vouchers. OFRM then enters the information onto an Excel spreadsheet that becomes the rent collection report. OFRM reconciles payments received in the tenant lockbox with the bank statements. However, OFRM and OPM do not have written policies or procedures to ensure that OFRM sends the monthly rent report to OPM on a timely basis. OFRM stated that there is no policy in effect indicating a time frame or a designated individual in OPM to receive the report. The parties have performed based on a verbal agreement, which has occasionally resulted in the rent collection report not being forwarded to OPM in a timely manner.

In addition, OPM indicated that historically rent collection reports have not been received in a timely fashion to allow for the establishment of a delinquency rate baseline and to ensure that rent payments are made no later than 30 days in arrears. The rent collection reports enable OPM to identify delinquent tenants and assess late fees, where applicable. However, OPM has no system in place to follow-up on delinquencies or to assess late fees.

LOST REVENUE

We identified \$1,056,534 in lost rental revenue to the District during FYs 1998-2001. In addition, lost accrued interest amounted to \$52,036 for a total dollar amount of \$1,108,570.

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The loss in estimated annual revenue, including the lost accrued interest, is \$277,143 (\$1,108,570 ÷ 4).

RECOMMENDATION 5

We recommend that the Director, Office of Property Management, improve management oversight of the outlease program by regularly reviewing all tenant leases and making required future rent adjustments to reflect increases in rent due to annual increases, fair market value appraisals, or percentaged-based lease adjustments.

OPM Response

OPM stated that it has improved data systems to better monitor annual adjustments for rent increases. OPM also indicated that it had begun internal audits of its files and has begun renegotiating, restructuring, or amending problem leases. OPM stated it will intensify efforts to review, evaluate, and implement the requirement for fair market appraisals by collecting fair market evaluation reports. Increases based on fair market valuation will be taken only at renewal or where called for in a specific lease requirement.

OIG Comment

The actions taken and planned by OPM are responsive to the recommendation and represent on-going initiatives involving continuous audits and evaluations of special lease arrangements based on fair market valuations at the time of lease renewal.

RECOMMENDATION 6

We recommend that the Director, Office of Property Management, improve management oversight of the outlease program by periodically reviewing outlease files to ensure that tenants have met insurance requirements in accordance with each lease.

OPM Response

OPM indicated that it will be reviewing all outlease files to ensure tenants have met their insurance requirements in accordance with each lease.

OIG Comment

OPM's planned actions are responsive to the recommendation. We request that OPM provide a target date for completion of the planned action in replying to this final report.

FINDINGS AND RECOMMENDATIONS

RECOMMENDATION 7

We recommend that the Director, Office of Property Management, improve management oversight of the outlease program by reconciling tenant rental payments monthly to ensure all payments are made through the lockbox and deposited with the D.C. Treasury.

OPM Response

OPM did not provide a response to this recommendation in its comments on the draft of this report.

OIG Comment

We consider this recommendation unresolved and request that OPM provide a response to this recommendation in replying to this final report.

RECOMMENDATION 8

We recommend that the Director, Office of Property Management, improve management oversight of the outlease program by requesting payment for delinquent rent and late fees, as disclosed in each monthly reconciliation.

OPM Response

OPM stated, in part, that it is currently reconciling tenant rental payments monthly and notifying tenants about their rent increases and requiring compliance with their lease.

OIG Comment

OPM is partially responsive to the intent of the recommendation. It is unclear from OPM's response whether OPM will be requiring payment from tenants for delinquent rent and late fees upon completion of each monthly reconciliation. We request that OPM clarify its response in replying to this final report.

RECOMMENDATION 9

We recommend that the Director, Office of Property Management, improve management oversight of the outlease program by applying past rent increases to the appropriate outleases and collecting revenue due the District.

FINDINGS AND RECOMMENDATIONS

OPM Response

OPM stated, in part, that it is currently reconciling tenant rental payments monthly and notifying tenants about their rent increases and requiring compliance with their leases.

OIG Comment

OPM's response is partially responsive to the recommendation. OPM has not clearly stated its intention to apply past rent increases to the appropriate outleases and take action to collect revenue due the District. We request that OPM clarify its response to this recommendation and include the actions planned for recovery of past due rent in replying to this final report.

FINDINGS AND RECOMMENDATIONS

FINDING 3: COORDINATING RECONCILIATION OF THE RENT COLLECTION REPORT

SYNOPSIS

OFRM and OPM have not effectively coordinated the reconciliation of outleases in the rent collection report with the list of current leases. In addition, rent collection reports are not updated on a regular basis because OPM does not inform OFRM of changes in lease payments due to annual increases or fair market valuations. When deposits are made, OPM does not indicate whether the payment is a security deposit or a regular rental payment. We found that rent collection reports contained leases that had been terminated or were deleted because there had not been any activity. This condition resulted from a lack of written procedures or agreements between OFRM and OPM on coordinating reconciliation of outlease information. As a result, we found an additional ten outleases, with a value of \$5,839 in monthly rent that should be included on the rent collection report.

DISCUSSION

We reconciled the OFRM February 2002 Rent Collection Report with OPM's current outlease listing, taking into account new leases initiated after fieldwork was completed. We determined that an additional 10 active outleases should be included on the rent collection report and 6 terminated outleases should be removed. The additional 10 leases represent an additional \$5,839 (\$70,068/annually) in monthly rent.

OFRM stated that in the past and during the tenure of the previous lease administrator, who left the agency in April 2001, OPM actively communicated issues with OFRM, participated in the collection of rents due, monitored escalations and late payments, and determined amounts due for leases based on determining factors (i.e., percentage of gross sales). Part of the communication with OPM was in the form of a yearly projection of rent collection. Since the departure of the lease administrator, communication with OPM has once again become ineffective.

RECOMMENDATION 10

We recommend that the Directors, Office of Property Management and the Office of Finance and Resource Management, develop a Memorandum of Understanding setting forth the procedures for coordinating the monthly reconciliation of the rent collection report (OFRM) with the listing of current leases (OPM).

FINDINGS AND RECOMMENDATIONS

OPM and OFRM Response

OPM stated that it is difficult to note changes in rent increases when rent collection reports are generated by OFRM and the CFO's office. OPM indicated it is currently working with OFRM and the CFO's office on the development of policies and procedures on this issue.

OFRM stated that having it participate in a process that includes both preparation and reconciliation of the rent collection report would not ensure proper separation of duties.

OIG Comment

The intent of our recommendation was not to transfer current responsibilities to either OPM or OFRM or to overlap responsibilities that are clearly separate. Rather, it was to find ways for OPM and OFRM to improve communication and cooperation in their efforts to generate an accurate and complete rent collection report. We request that both OPM and OFRM reconsider their positions on this recommendation and respond favorably to this final report on how they plan to coordinate their responsibilities.

FINDINGS AND RECOMMENDATIONS

FINDING 4: RECORD KEEPING, RETENTION, AND STORAGE
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SYNOPSIS

Management controls over the central file system were inadequate because OPM lacked a defined policy on the storage of files. OPM did not archive terminated or transfer lease files, which often led to active lease files residing in the same area as terminated lease files. In addition, OPM did not have a policy limiting access to the files. We visited the OPM warehouse located in Northeast D.C. to determine if any relevant materials pertaining to our audit were available there. We documented and informed OPM of the deplorable conditions in which we found the files. In response to our concerns, OPM took immediate and decisive action to greatly improve record keeping and the retention of records in the warehouse storage areas.

DISCUSSION

OPM had not designated an individual responsible for supervising the central file room. Title 1, DCMR, Chapter 15, *Public Records of the District of Columbia* provides the District regulations for record storage and retention. In brief, agency heads shall establish controls over the creation, maintenance, and use of records in accordance with these regulations, and shall ensure that records of continuing historical or other significance can be located when needed and that they are preserved in good condition for eventual transfer to the Archives. 1 DCMR §1503.1.

By evaluating management controls over the central file system, we found five boxes of outlease file documentation in and around a desk outside the central file room where they had been for several months. Upon closer inspection, these boxes contained lease documentation and correspondence that had yet to be filed. Management officials informed us that due to staff shortages, there was only one staff person available for filing and we noted that no one supervised this person. OPM had to hire temporary employees to assist in reorganizing the central file room, an effort that took approximately 3 weeks to complete.

Central File Room

An inspection of the central file room revealed that file cabinets were mislabeled and contained different types of files. For example, inleases were stored in cabinets labeled “outleases” and contract files were stored in cabinets labeled “D.C. Public Schools and D.C. Public Charter School.” We identified files with several folders that should have been stored together but were found in different file cabinets in and outside the central file room. The outlease files are labeled chronologically by lease commencement date (i.e., OL 9901

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indicated the first outlease in FY 1999), but inactive and active files were stored together which made it extremely difficult to determine which outleases were active or terminated. We noted that much of the outlease correspondence did not contain lease numbers, allowing for misfiling of documents for those tenants that operated under similar names or had renegotiated new outleases under a different outlease number. Templates of the specific documents to reside in those files are nonexistent.

OPM lacks a formal central file room policy for access restriction and accountability. Any person could enter the central file room, remove records without signing for them and not return the files. Many files were found scattered throughout OPM where staff had forgotten to return them to the central file room.

OPM also uses several rooms throughout their offices to store various files. When these rooms become full or when the room is needed for other uses, the files would be shipped to OPM's storage facility located at 220 Adams Place in Northeast (NE) D.C. OPM stated that the NE storage facility is where archived files are stored, so we visited the facility to determine if additional outlease file documentation for our audit would be found there.



SE Corner

This area is where a recent shipment of OPM files was placed. The boxes contained records such as personnel manuals, consultant files, excess paper, etc., the most recent being 1998. There were no records found concerning outlease files subsequent to 1998.



FINDINGS AND RECOMMENDATIONS



NW Corner

Contained very old records with the most recent being the early 1990s and late 1980s. Some items belong to other agencies such as the blueprints in the background. The blueprints are engineering and architectural plans for various projects throughout the District.



SE Corner

OPM needed the space for other uses, so the boxes were moved and stacked accordingly. Note the 'Sutter's Tavern' box. Sutter's Tavern had been involved in litigation against the District in the past. There were 10 boxes for Sutter's Tavern and the remaining nine were scattered in different locations throughout this area of the storage facility.



FINDINGS AND RECOMMENDATIONS

Management Actions

We commend OPM officials for their effort that dramatically improved the conditions of the central file room and the storage facility. In response to our concerns, OPM recently hired a records manager who is responsible for record keeping, storage and retention. This person has done a commendable job; for example, surplus furniture and broken file cabinets were removed to make room for 20 new file cabinets. Ten of the file cabinets are designated for in/out lease files, four are used for incoming chronological mail, and six contain newly filed folders. The cabinets are correctly labeled with the proper contents and an access and sign-out policy is in effect, although not formalized.

We conducted a follow-up visit to the storage facility and noted that OPM had sorted, categorized, and relabeled all boxes found at the storage facility. Miscellaneous lease files were returned to the central office. There are now 55 labeled file cabinets at the storage facility that contain documents waiting to be inventoried. Further, OPM is in discussions with the D.C. Archivist for final disposition.



FINDINGS AND RECOMMENDATIONS

RECOMMENDATION 11

We recommend that the Director, Office of Property Management establish policies for restricting access to lease records and other documentation maintained in the central file room.

OPM Response

OPM officials stated in their response that they have implemented numerous measures to ensure compliance with District record administration policies. The OPM also reported that they have successfully implemented supplemental policies to safe keep and restrict access to lease records and other critical information maintained in the central file room.

OIG Comment

The actions taken by OPM, as outlined in the response, clearly meet the intent of our recommendation. No further action is necessary on this recommendation.

FINDINGS AND RECOMMENDATIONS

FINDING 5: OUTLEASE TENANT SECURITY DEPOSITS

SYNOPSIS

OFRM and OPM are both involved in the processing of tenant security deposits. Our review found that tenant security deposits are recorded as an “O” (Other) revenue type. O-type revenues are subsequently used for normal operating expenses such as effecting repairs on properties, maintenance of underutilized properties, and to pay on-going maintenance of District-owned and leased buildings and property. We believe that security deposits are to be treated as fiduciary in nature and should be recorded in the Agency Funds, which is used to report assets that are held in a custodial relationship.

DISCUSSION

The Governmental Accounting Standards Board Statement No. 34, (GASB 34), provides a new framework or financial reporting model for state and local governments. It provides guidance relative to accounting for non-operating revenue and states that:

Not all resources of the financial reporting entity are necessarily available to support government programs of the reporting entity.... No particular problem arises when such resources are included in fund-based presentation. Inclusion of these same resources in government-wide financial statements, however, could easily be misinterpreted as indicating that those resources are somehow available to support government programs. Therefore, fiduciary funds are excluded from the government-wide financial statements.

STEPHEN J. GAUTHIER, AN ELECTED OFFICIAL’S GUIDE TO THE NEW GOVERNMENTAL FINANCIAL REPORTING MODEL 31 (1995). GASB 34 will impact the D.C. CAFR for FY 2002.

Also, the D.C. Office of the Chief Financial Officer’s Policies and Procedures Manual, Paragraph Q of Section 1010.607, titled “SPECIFIC COLLECTION POLICIES,” states:

When a non-revenue cash receipt is collected such as a security deposit, the agency collecting the money must determine the balance sheet account or object of expenditure to be credited. A non-revenue cash receipt form must be completed. The receipt and the money must be forwarded to the D.C. Treasury for deposit.

Id.

FINDINGS AND RECOMMENDATIONS

In addition, the D.C. Office of Finance and Operations Systems stated that the policy on fiduciary funds existed before the formation of OPM. We asked OFRM officials whether they were aware of this official policy on procedures for the accounting of tenant security deposits, and they answered that they were not.

We noted that OPM does not inform OFRM when a particular deposit is to be considered as a security deposit, although a security deposit is required for most outleases. At the conclusion of outlease negotiations, a security deposit is normally provided to OPM. OPM then forwards the security deposit to OFRM for processing. Since OPM does not inform OFRM that the funds are a security deposit, OFRM processes the security deposit as regular revenue.

By classifying tenant security deposits as regular rental revenue, rent collection reports are overstated by the amount of tenant security deposits collected. We could not determine the dollar amount of security deposits for our audit period due to the lack of documentation in OPM's outlease files.

RECOMMENDATION 12

We recommend that the Director, Office of Finance and Resource Management, comply with tenant security deposit policies that govern accounting for tenant security deposits.

OFRM Response

In response to the recommendation, OFRM indicated that since our auditors could not identify any security deposits, less any one being deposited in a revenue account, the auditor's conclusions are speculative and not based on actual facts. OFRM requested that we remove the finding from the report because it was unfounded.

OIG Comment

We believe OFRM missed the essential point of the finding and recommendation, i.e., that formal policies and procedures are needed to account for tenant security deposits as fiduciary funds, consistent with GASB 34 requirements. We request that OFRM reconsider its position and respond to this recommendation, paying particular attention to GASB 34 compliance, in replying to this final report.

FINDINGS AND RECOMMENDATIONS

RECOMMENDATION 13

We recommend that the Director, Office of Finance and Resource Management, establish an account with the D.C. Treasury for outlease tenant security deposits and ensure that outlease security deposits are transferred into this account.

OFRM Response

OFRM officials did not provide a response to this recommendation.

OIG Comment

While OFRM did not directly respond to this recommendation, the response received from OPM was generally positive and had identified actions taken or planned to address the findings and recommendations. Further, OPM stated that discussions were underway between OPM, OFRM, and the Office of the Chief Financial Officer to create separate and distinct accounts for security deposits. We believe that sufficient actions will be taken to adequately resolve this issue.

We request the OFRM readdress this issue, and report to us on the progress of OFRM, OPM and the CFO's office on actions taken to create separate and distinct accounts for security deposits.

RECOMMENDATION 14

We recommended that the Director, Office of Property Management, develop formal policy and procedures in conjunction with OFRM for processing tenant security deposits.

OPM and OFRM Responses

OPM concurred with the recommendation, stating that it is working with OFRM and the CFO's office to create separate and distinct accounts for security deposits, notwithstanding the fact that policy for this issue rests with OFRM. OFRM did not provide a response to this recommendation.

OIG Comment

OPM responded favorably to this recommendation, stating that it was in discussion with OFRM and the CFO's office on this very issue. We consider OPM's action responsive to the recommendation. In evaluating OFRM's response, we are concerned by OFRM's position that contradicts actions already on course (with OPM and CFO) to address the issue. We believe OFRM missed the essential point of the finding and recommendation, i.e., that formal

FINDINGS AND RECOMMENDATIONS

policies and procedures are needed to account for tenant security deposits as fiduciary funds, consistent with GASB 34 requirements. We request that OFRM reconsider its position and respond to this recommendation, paying particular attention to GASB 34 compliance, in replying to this final report.

RECOMMENDATION 15

We recommended that the Director, Office of Property Management, identify tenants that have remitted security deposits and convey the pertinent information to OFRM so that a fiduciary account can be established.

OPM Response

OPM stated it is working with OFRM and the CFO's office on the creation of separate and distinct accounts for security deposits.

OIG Comment

OPM's actions meet the intent of the recommendation. No further action is necessary.

EXHIBIT A

Summary of Potential Benefits Resulting From Audit		
Recommendation	Description of Benefit	Amount and Type of Benefit
1	Compliance and Internal Controls. Improves administration of outlease records.	Nonmonetary.
2	Compliance and Internal Controls. Improves the accuracy and completeness of outlease records.	Nonmonetary.
3	Compliance and Internal Controls. Creates policies and procedures for administering outleases.	Nonmonetary.
4	Compliance and Internal Controls. Develops system for tracking audit and consultant report recommendations.	Nonmonetary.
5	Economy and Efficiency. Results in rent increases to outleases.	Funds Put to Better Use. Increase in annual revenues estimated to be \$277,143.
6	Economy and Efficiency. Ensures tenants meet lease insurance requirements.	Undeterminable Benefits. Will reduce District's risk of incurring losses.
7	Compliance and Internal Controls. Ensures all tenant payments are accounted for.	Nonmonetary.
8	Economy and Efficiency. Collects delinquent rent and late fees.	Funds Put to Better Use. Tenant reimbursed the District for \$4,758.32 in previous rent due. Will also avoid lost interest of \$361.92.

EXHIBIT A (Continued)

Recommendation	Description of Benefit	Amount and Type of Benefit
9	Economy and Efficiency. Facilitates collection of revenue due the District.	Funds Put to Better Use. District can collect up to \$1,056,534 in lost rent revenue and avoid interest losses of \$52,036.
10	Compliance and Internal Controls. Improves accuracy of the rent collection report.	Nonmonetary.
11	Compliance and Internal Controls. Creates policies for restricting access to the central file room.	Nonmonetary.
12	Compliance and Internal Controls. Improves compliance with tenant security deposit policies.	Nonmonetary.
13	Compliance and Internal Controls. Improves accounting for tenant security deposits.	Nonmonetary.
14	Compliance and Internal Controls. Creates formal policy for processing tenant security deposits.	Nonmonetary.
15	Compliance and Internal Controls. Accounts for past security deposits not previously accounted for.	Nonmonetary.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF PROPERTY MANAGEMENT

Timothy Dimond
Director
Office of Property Management



September 24, 2002

Mr. Charles C. Maddox, Esq.
Office of the Inspector General
Government of the District of Columbia
717 14th Street N.W., Suite 500
Washington, D.C. 20005

Re: Responses by the Office of Property Management (“OPM”) to the Office of the Inspector General’s (“OIG”) Audit of Rent Collections in the District of Columbia Government report (OIG-01-1-26MA) dated August 23, 2002.

Dear Inspector Maddox:

Thank you for providing us the opportunity to respond and comment on the above-referenced draft report. What follows are our responses to your findings and recommendations contained in the draft report, requesting certain actions by the Office of Property Management (“OPM”).

While the draft report generally recognizes the high turnover rate in senior management, and acknowledges the fact that OPM had a severe reduction-in-force in Fiscal Years (FY) 1999, it does not take into account that the number of our FTE’s in our agency was reduced in fiscal year 2000 and 2001. (These reductions in force amount to almost 60%). There appears to be no correlation or recognition of the impact of such task to the Agency. Furthermore, since its inception in 1998, the Agency has received additional mandates to perform, manage and monitor properties such as vacant lots and schools facilities without the direct benefit of support positions or funding.

Of particular import is the fact that the report does not take into account the Agency’s core mission and corresponding position on which the organization has the ability to perform within the context of its operation. We also believe that the OIG’s report stopped short on its Agency overview and failed to recognize the overall effort OPM was undertaking to rectify matters. Despite increased workload demands, the Agency has not lost any of its responsibilities, nor has

the mandate or workload of the entire Agency changed since the first reduction-in-force took effect. Notwithstanding projected budget shortfalls for the next three fiscal years, OPM is moving forward with its plans to rectify all lease management and administration issues, as well as its record keeping and retention guidelines.

Finally, OPM believes that many of the noted deficiencies and findings of the above-referenced draft report do not accurately depict or report on the measures and initiatives undertaken by the Agency prior to the commencement of the OIG's audit. Specifically, the preliminary report does not provide complete and accurate information on many of the initiatives OPM already had in place which address many of same reported shortfalls listed in this analysis.

I. Reports Objectives:

- Review tenant lease compliance with applicable District laws, regulations, policies and procedures;
- Review agency monitoring process over rent collection activities

II. The Analysis:

Finding 1: Accountability and Management Controls

Finding 2: Managing the Outlease Program

Finding 3: Coordinating Reconciliation of the Rent Collection Report

Finding 4: Record Keeping, Retention, and Storage

Finding 5: Outlease Tenant Security Deposits

A. Addressing the Reports Findings:

Finding 1: Accountability and Management Controls

OPM's management controls over outlease administration were incomplete, and lacking the basic processes needed to ensure the overall integrity of program and fiscal activities. Lines of accountability were not clearly established, documentation was nonexistent in many instances, written policies and procedures were outdated, and prior review recommendations were not implemented.

Areas covered:

- Establishing Accountability
- Outlease Documentation
- Policies and Procedures
- Tracking Review Recommendations

OPM's Response:

As stated by the OIG's report, OPM has endured a high turnover rate in senior management. In FY 1998, a massive reduction-in-work-force impacted significantly the operations of the Agency. Moreover, the report appears to have overlooked the fact that for the period of early FY 1999-2000 the lease administration was performed by Arthur Anderson through a vendor. OPM contracted with them to perform all of the perfunctory duties of typical lease administration as stated in this report. After a level of evaluation in 2000, it was determined that it was neither cost effective nor was the District receiving the level of administration and/or supervision we believed we were entitled to. The agreement was allowed to lapse and the information contained in their database was transferred to the District for the purposes of input into the Archibus Space Management System ("Archibus").

We believe Archibus has the capability for performing the lease management of all leases, on an on-going and going forward basis. Archibus provides OPM with an extensive database of District owned and leased properties and buildings. The Space Management is divided between the Property Module and the Buildings Module. The property module list all of the properties¹ by Square, Suffix, and Lot numbers (aka "property codes"), as well as other variables like address, agency responsible for the property, current use, size and other relevant information which in conjunction with financial and tax records provides a more accurate source of information to OPM staff when researching lease related documentation and tracking lease activities. OPM has a Realty Specialist staffer on board responsible for updating and maintaining this database.

In addition, since August 2000, OPM has been working expeditiously to address many of the concerns pointed out in the OIG's analysis. The report clearly recognizes that there was an identified plan by OPM to rectify record keeping issues. It also generally recognizes some of the efforts to improve matters. However, it does not appear to account for or comprehend the nature or time requirement of the corrective action.

During the course of the audit period, OPM explained in detail its participation in the Administrative Services Management Program (ASMP), which is a business-reengineering program. The purpose of the program was to evaluate and redesign business process to those in keeping with best in class and industry standards. OPM explained that it was participating in such a program with the intent of redesigning all of its practices, including lease management and administration. We further indicated that while original schedule was not to commence this work until late 2003, we had accelerated the process to 2002 and 2003. The ensuing results of the program provide for the procedure, establishment of policies, procedure etc. and associated time lines starting with the requirement for the lease-to-lease execution and management.

¹ Vacant lots included.

We are in the process of defining with the consultants the next step time lines, which involve the writing of the associated procedures during the 2003 fiscal year.

There are several points of consideration related to staffing as stated in the report for dedicated individuals for lease administration. The report identifies that the Associate Director managed the leases in prior year. However, the report does not reflect that it was aware that it was not Associate Director's sole job, and that the sub contractor oversaw the visual lease program under Arthur Anderson's lease management contract. Given the size of the Agency, the nature and scope of our mission and the number of out-leases under consideration, it is a little difficult to justify a dedicated lease administrator based on industry standards.

In addition, implementing any new staffing plan will present challenges given budget shortfalls in incoming years. Nevertheless, we have designated proportional shares to two (2) individuals to administer the lease administration activities. We are also in the process of restructuring work assignments to address the portfolio management needs, as well as the findings of this report. We are confident that with the undertakings of the ASMP initiative and the realignment of internal resources, we will be able to address many of the policy and procedures, and outlease documentation concerns we have failed to address in the past. We are also moving forward with our plans to evaluate the workload requirements within the context of the Agency's overall mission, and the hiring of a Lease Administrator who would handle both in-leases and out-leases. In the near term, OPM will continue its efforts with the ASMP initiative and refining its efforts to establish revised and current policies and procedure to provide the necessary structure and process.

Finding 2: Managing the Outlease Program

OPM did not effectively manage the out-lease program. OPM's management of the program was ineffective because it did not optimize revenue by ensuring that out-leases were adjusted annually for rental increases and fair market valuations, as required by contractual agreements.

Areas covered:

- Annual Adjustments for Rent Increases
- Fair Market Valuation
- Percentage-Based Leases
- Obtaining Adequate Insurance Coverage
- Undeposited Rental Checks
- Timely Submission of Rent Collection Report
- Lost Revenue

OPM's Response:

We reiterate the fact that the report fails to recognize that for the years 1999-2000, the lease administration was performed through Arthur Anderson. They performed all of the perfunctory duties as detailed in the report. They also represented that lease management was current. While accepting the end responsibility for this information, OPM did contract with Arthur Anderson to perform this function and did make a change when it became obvious that it was not in the District's best interests to continue. The report appears to have either overlooked this fact or may not have had the benefit of sufficient information to understand this. While this transfer of administration might have had time lapses associated with it, it will in the end save the District considerable money and allow more real time analysis of all the items noted in the report. We would also indicate that based on the ASMP, we indicated that OPM operating system would have an interface with the accounting software via a middle wear that would further strengthen the real time information available. The ASMP initiative is currently in the process of designing and refining the requirement for the middle for just such purposes.

Since October 2002, and thereafter, OPM has added additional resources to manage its outlease program. During the ASMP reengineering, we have created additional monitoring systems to keep track of annual adjustments for rent increases. We have also begun internal audits of several of its files and OPM acknowledges that there are problems with several of the leases; however, many of them are being re-negotiated, restructured, amended, or modified. OPM is currently reviewing all tenant leases and making required future rent adjustments to reflect increases in rent due to escalations. Through improved processes and procedures, we will be reviewing out-lease files to ensure that tenants have met their insurance requirements in accordance with each lease. We are currently reconciling tenant rental payments monthly and are notifying our tenants about their rent increases and requiring compliance with their lease.

OPM plans to intensify efforts to review, evaluate and implement the requirement by collecting fair market valuation reports and amass all outstanding comprehensive liability insurance certificates. We also intend to review the latter ones for appropriate coverage levels. Based on industry standards and current "best in class" procedures, which the District will need to reevaluate its requirement for fair market value determinations during the course of the lease term. It would appear the intent was to establish fair market value through an appraisal for market rate rents. However, unless there was specific lease language to the effect, the District could not use nor gain from fair market valuations during the lease term. Once the lease is established, the District could not amend the lease based on fluctuation in the market rates, as the rent is a defined parameter under the lease. The only other basis would be the right of a lease extension where we would want to establish the market rate rent at the time of renewal. In such cases, it would be appropriate unless there was specific lease language negotiated upfront dealing with the renewal rate. Once the rate is established and the lease executed, there is no need for the valuation. If the District does so, it is only incurring and committing unnecessary resources of staff and money to do so.

Finding 3: Coordinating Reconciliation of the Rent Collection Report

OFRM and OPM have not effectively coordinated the reconciliation of out-leases in the rent collection report with the list of current leases. In addition, rent collection reports are not updated on a regular basis because OPM does not inform OFRM of changes in lease payments due to annual increases or fair market valuations.

OPM's Response:

The OIG's report does not provide an accurate representation of the numerous initiatives OPM was instituting at the time this review was being conducted. Last November, OPM developed a supplemental tracking spreadsheet to monitor leases under the purview of this Office, as well as a spreadsheet to monitor all outlease collections. As previously mentioned, OPM does not have the capability of a current full time dedicated lease manager and has successfully assigned these responsibilities to various staffers to ensure reconciliation of the rent collections.

OPM recognizes that the processing of rental payments made by the District's tenants is flawed. Without real time and accurate consistent monthly reports, lease administration is difficult. The report accurately details policies and procedure currently in place. What we believe is the report omits a recognition that OPM is not responsible for the establishment of the financial and accounting procedures for the District, and that OPM only manages to the standards as established.

OPM takes some exception with the auditor's finding that rent collection reports are not updated on a regular basis because OPM does not inform OFRM of changes in lease payments due to annual increases or fair market valuations. It appears to have been overlooked that it is difficult to note changes when the reports are generated by OFRM and the CFO.

OPM is currently working with OFRM and the CFO office on such issues in the development of policies and procedures and through its initiatives in the ASMP problem.

Finding 4: Record Keeping, Retention, and Storage

Management controls over the central file system were inadequate because OPM lacked a defined policy on the storage of files. OPM did not archive terminated or transferred lease files, which often led to active lease files residing in the same area as terminated lease files. In addition, OPM did not have a policy limiting access to files.

Areas covered:

Central File Room
Management Actions

OPM's Response:

As reported by the OIG's assessment, OPM has implemented numerous measures to ensure compliance with District record administration policies. The OPM has also successfully implemented established supplemental policies to safe keep and restrict access to lease records and other critical information maintained in the central file room to date. OPM staff monitors file room activities to ensure efficient operations of the central file.

OPM is also contacting electronic storage system vendors on the GSA schedule to evaluate options for improving our file storage and retrieval equipment and methods. One such firm recently upgraded the D.C. Office of Personnel's entire employee file system and performed some additional work for the Office of Tax and Revenue.

Finding 5: Outlease Tenant Security Deposits

OFRM and OPM are both involved in depositing tenant security deposits directly into an "O" ("Other") revenue account that is subsequently used for normal operating expenses such as effecting repairs on properties, maintenance of underutilized properties, and to pay on-going maintenance of District-owned and leased buildings and property. We believe that security deposits are to be treated as fiduciary in nature and should be recorded in the Agency Funds, which is used to report assets that are held in a custodial relationship.

OPM's Response:

At an unrelated meeting last January 2002, OPM, OFRM and the Office of the D.C. Treasurer ended up discussing the fact that there is no separate fund for security deposits for District leases. As previously mentioned, it is not within OPM's purview to establish financial procedures; OPM manages procedures that are established. In keeping with the implementation of GASB 34, OPM is working with OFRM and the CFO's office on such matters as the creation of separate and distinct accounts for security deposits as we concur with this recommendation.

Additionally, OPM is not involved in depositing tenant security deposits directly into an "O" revenue account.

In summary, we acknowledge some of the shortcomings of the current system and their existence; however, we made efforts to convey the steps we were taking to correct such matters. We strongly believe that the draft report did not reflect those efforts nor was cognizant in its

Letter to Charles C. Maddox, Esq.
September 20, 2002
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recognition of the challenges facing the Agency in Executive turnover, reductions in force, increasing unfounded mandates and the magnitude of the problem and the efforts to correct them and steps already being take to do so.

We are confident that the steps taken prior to, at the time, and through the Business Reengineering process ASMP, in conjunction with OFRM and the CFO's office will result in the correction of many of the issues detailed in the report. Again, thank you again for giving us the opportunity to respond to the auditor's preliminary report. If you have any further questions, or wish to discuss this matter in detail, please do not hesitate to contact me at 724-4400.

Sincerely,

A handwritten signature in black ink, appearing to be 'T. Dimond', with a stylized, looping flourish at the end.

Timothy F. Dimond
Director

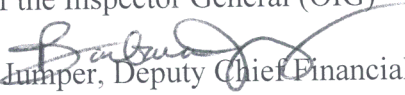
GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF FINANCE AND RESOURCE MANAGEMENT



2002 OCT -2 PM 4:27

MEMORANDUM

TO: Charles C. Maddox, Inspector General
Office of the Inspector General (OIG)

FROM:  Barbara Jumper, Deputy Chief Financial Officer
Office of Finance and Resource Management (OFRM)

DATE: October 2, 2002

SUBJECT: Response to Draft Report

The Office of Finance and Resource Management (OFRM) is in receipt of the draft report entitled, "Audit of Rent Collections in the District of Columbia Government." OFRM offers the following comments and suggested corrections.

1. Page 12 Para. 4 "We [OIG] found three rental checks that had not been forwarded and/or deposited by OFRM into the rental lockbox." Para. 5 "We reviewed the OFRM rent report for FY 2000 and found that an additional eight checks for the period July 2000 through March 2001 were also not credited to this tenant's account on the rent report nor were they deposited into the lockbox." And Para. 6 line 2 "Based on our review, we were able to confirm that the 8 checks...had been deposited directly into the D.C. Treasury, bypassing the lockbox."

In response, OFRM wishes to state that the OIG's report fails to explain the process involved when checks are not sent directly to the lockbox but are hand delivered by tenants. The report also incorrectly explains the lockbox system on page 13 Para. 4. The lockbox is a system whereas tenants send their rent payments to a post office box (PO Box). The bank, not a D.C. employee, empties the lockbox daily and deposits the checks into the D.C. Treasury account designated for this revenue source. Copies of the checks are forwarded to OFRM and are used to prepare the rent collections report. The rent collections report is then reconciled to the bank statement and forwarded to OPM. Occasionally, however, and regardless of notifications of where to send rent payments, tenants want to ensure that their checks are received and hand delivered them to OPM. OPM is then required to forward those rental payments to OFRM. At OPM, an official hand delivers the payment to OFRM where a transmittal is signed acknowledging receipt. At OFRM, checks received are first logged then deposited directly into D.C. Treasury. This process is not directed to bypass the lockbox but to provide an alternative that contains management controls when tenants do not mail checks to the lockbox. The report also fails to explain the chronology of these eleven checks (three plus eight). These checks were located by the OIG auditors at OPM's premises. Those that were

current (not considered stale dated) were forwarded to (not by) OFRM and accordingly deposited into D.C. Treasury. Those stale dated were returned to the tenant who issued new checks and sent them to the lockbox as instructed. Finally, the report incorrectly indicates that OFRM receives the hand delivered checks and forward them to the lockbox (or fails to do that). As explained to the OIG auditors, these checks are hand delivered by tenants to OPM which is responsible to ensure that they are forwarded to OFRM for deposit into D.C. Treasury.

2. Page 13 Para. 3 line 6 "...also a failure of OFRM to properly record rental deposits." In response, OFRM advises that this statement be completely removed from the report because the report fails to substantiate such a statement.

3. Page 13 Para. 5 line 1 "...OPM indicated that historically rent collection reports have not been received in a timely fashion..." In response, OFRM wishes to state that, after this issue was brought to OFRM's attention by the OIG auditors, rent collection reports have consistently been submitted to OPM by the 15th of the month following the collection of payments. Beginning in fiscal year 2003, a transmittal letter signed by an OPM official acknowledging receipt will accompany these reports.

4. Page 15 Para. 1 line 1 "OFRM and OPM have not effectively coordinated the reconciliation of outleases in the rent collection report with the list of current leases." Para. 4 "We [OIG] recommend that the Office of Property Management and the Office of Finance and Resource Management: 10. Develop a Memorandum of Understanding setting forth the procedures for coordinating the monthly reconciliation of the rent collection report (OFRM) with the listing of current leases (OPM)." In response, OFRM wishes to state that the reconciliation process above is a programmatic function, the sole responsibility of OPM. OFRM's responsibility is to prepare the rent collection report based on copies of checks received by the bank with the bank statements before submission to OPM for reconciliation with the list of current leases. Having OFRM participate in a process that includes performing the preparation as well as the reconciliation of the rent collection report does not ensure proper segregation of duties. Instead, recommending that OPM establishes procedures for reconciling the rent collection report with the listing of current leases appears more appropriate.

5. Page 15 Para. 3 line 6 "Since the departure of the lease administrator, communication with OPM has once again become ineffective." In response, OFRM believes that the OIG auditor intended to state that communication with OFRM (not OPM) has once again become ineffective.

6. Page 21 Para. 1 line 1 "OFRM and OPM are both involved in depositing tenant security deposits directly into an 'O' (Other) revenue account that is subsequently used for normal operating expenses...." Page 22 Para. 2 line 3 "We could not determine the dollar amount of security deposits for our audit period due to the lack of documentation in OPM's outlease files." Finally, Page 22 Para. 1 line 2 "We [OIG auditors] asked

OFRM officials whether they were aware of this official policy on procedures for the accounting of tenant security deposits, and they answered that they were not.” The above represents excerpts from OIG auditors’ finding 5, *Outlease Tenant Security Deposits*, on pages 21 and 22. In response, OFRM advises that the entire finding be completely removed from the report because is unfounded. Since the OIG’s auditors could not identify any security deposit less any one being deposited in a revenue account, the auditor’s conclusions are speculative and not based on actual facts.

In closing, I wish to thank you and your staff for the courtesies extended to me and my staff and for affording OFRM the opportunity to comment on this draft report.